



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

June 7, 2010

To: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name of the Chief Executive Officer.

REPORT ON A PLAN TO FUND AUDIT SERVICES TO ULTIMATELY REDUCE THE RISK OF COUNTY DEPARTMENTS' FISCAL NON-COMPLIANCE AND EMPLOYEES' OR CONTRACTORS' FRAUDULENT ACTIVITIES FROM APRIL 20, 2010 BOARD MEETING (BUDGET DELIBERATIONS AGENDA OF JUNE 7, 2010)

On March 23, 2010, on a joint motion by Supervisor Knabe and Supervisor Yaroslavsky, the Chief Executive Officer (CEO) was instructed to replace the current department billing system with a new financing structure for risk-based audits in key control areas (such as cash, procurement and payroll/personnel) for inclusion in Final Changes to the fiscal year (FY) 2010-11 budget. It was further instructed that the CEO consider redirecting existing net County cost (NCC) from departments based on prior audit billing history and other factors, if appropriate, and work with the Auditor-Controller (Auditor) to develop a policy to fund non-routine, Board-priority audits on a pay-as-you-go basis. Supervisor Antonovich amended the motion for inclusion of an annual report of Board-ordered audits.

On April 14, 2010, our Office notified the applicable non-subvened departments through their budget analysts of the plan to redirect their existing NCC during FY 2010-11 Final Changes budget. This action was proposed to replace the Auditor's current billing system for risk-based audits in key control areas. A copy of the historical labor cost data provided by the Auditor for the Audit Division was also sent for the affected departments' review.

On April 28, 2010, our Office met with the Auditor to discuss feedback received from this exercise. Departments requested detailed information to verify the historical billing

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charges and contested some of the data. For example, departments identified one-time audit costs that should not be considered part of the base calculation for recurring audits in key control areas. To ensure the proper NCC is redirected, we will need additional time to work with departments to complete this exercise and will include the results in the FY 2010-11 Supplemental Budget. In the meantime, the affected departments will research the charges, review the Auditor's historical labor costs, and validate the data for the Audit Division.

The Auditor will also review their billings for the Contract Monitoring Division to ensure that the costs are appropriately recovered, because this Division should be NCC neutral as reported to your Board on May 21, 2004. Additionally, we will continue to work with the Auditor to assess the best methods to fund the Office of County Investigations (OCI) Division. OCI costs have two main components – call takers and investigations. The call taker cost should be spread to all departments. The investigation costs are one-time audits which only impact affected departments.

The FY 2010-11 Final Changes budget packet includes \$1.0 million of one-time funding in the Provisional Financing Uses (PFU) for non-routine, Board-priority audits. Attached is the report of the Board-ordered audits for FY 2009-10 with actual amounts through March 2010. The Tarzana Treatment Center – Follow Up Review and the Indigent Defense audits were ordered by your Board, but the labor cost data for these audits were unavailable during the composition of this report. During FY 2010-11 we will monitor expenditure of the \$1.0 million in PFU. If those funds are expended prior to the end of the fiscal year, we will identify additional funding if needed during the fiscal year.

If you have any questions, please have your staff contact Deputy Chief Executive Officer, Ellen Sandt at (213) 974-1186 or esandt@ceo.lacounty.gov.

WTF:ES:
GS:LM:cg

Attachment

c: Executive Office, Board of Supervisors
Auditor-Controller
County Counsel

AUDITOR-CONTROLLER
Board and/or Audit Committee-Requested Audit Assignments
Fiscal Year 2009-10
Actuals as of March 2010

Project Description/Department	FY 2009-10 Total
Financial Viabilities Training/BOS	\$3,665.79
Child Fatality Investigation/DCFS*	\$241,566.90
Custodian-Grace Building Maintenance/Public Library	\$26,492.91
Child Fatality Investigation/DCFS**	\$272,857.86
Project 50 – Review of Homelessness Project/CEO	\$142,185.13
Probation Assessment/Probation	\$71,964.60
Fee Waivers/CEO	\$6,433.20
Write offs/DCFS	\$15,426.63
United Care/DCFS	\$123,963.78
Cash Advances/DMH	\$13,765.42
Tarzana Treatment Center/DCFS, DHS, DMH, Probation, DPH, DPSS	\$75,089.00
Coroner Management Audit/Coroner	\$206,203.39
	\$1,199,614.61

*Demographic Systemic Issues Board motion by Supervisorial District No. 2 dated July 28, 2009.

**Three Child Fatalities Board motion by Supervisorial District No. 2 dated August 18, 2009.